

HSBC China Manufacturing PMI™

October data signals weaker expansions of output and new orders

Summary

Chinese manufacturers again signalled only a fractional improvement in overall operating conditions in October. Output and new business both expanded at the slowest rates in five months, while new export order growth weakened from September's recent peak to a modest pace. Relatively subdued market conditions led to a further reduction of staff numbers in October, while backlogs of work rose modestly. Meanwhile, average input costs and prices charged both declined at the fastest rates since March.

After adjusting for seasonal factors, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 50.4 in October, unchanged from the earlier flash reading. This was up slightly from 50.2 in September to a three-month high, but nonetheless continued to signal only a fractional improvement in the health of the sector.

Manufacturing output in China continued to increase in October, albeit at the weakest rate in the current five-month sequence of growth. Where higher output was noted, this was generally attributed to increased new order volumes. That said, the latter also expanded at the slowest rate in five months. Growth of new business from abroad meanwhile slowed from September's four-and-a-half year high to a moderate pace. Higher new export business was generally attributed by panellists to stronger client demand across a number of key export markets, though other firms cited relatively subdued market conditions.

Staffing levels were cut for the twelfth successive month in October, albeit at the slowest rate since July. Meanwhile, the level of work-in-hand rose at a moderate pace, with a number of panellists attributing the increase to sustained new order growth.

Purchasing activity increased across China's manufacturing sector in October, as has been the case since May. That said, the rate of growth eased to a marginal pace that was the weakest in five months. Stocks of inputs were meanwhile depleted for the third month in a row, amid reports of ongoing inventory adjustments. In contrast, stocks of finished goods rose for the first time in six months, albeit fractionally.

Average cost burdens declined at the quickest rate since March in October, amid reports of lower prices for raw materials. Prices charged by manufacturing companies also declined markedly in October, which was partly attributed to attempts to gain new business.

Comment

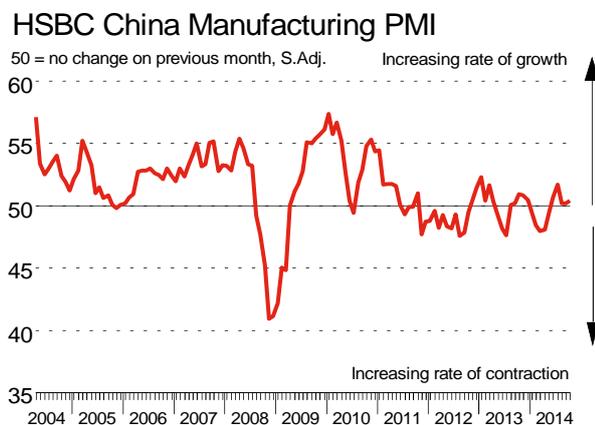
Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

"The HSBC China Manufacturing PMI rose to 50.4 in the final reading for October, up from 50.2 in September, and unchanged from the flash reading released earlier. Compared to the flash readings, the new orders and new export orders sub-indices saw small downward revisions, but both remained in expansion territory. Meanwhile, the employment and inventory sub-indices saw small upward revisions. Overall, the manufacturing sector continued to stabilize in October, however the sequential momentum likely weakened. The economy still shows clear signs of insufficient effective demand. We still see uncertainties, given the property downturn as well as the slow pace of global recovery, and expect further monetary and fiscal easing measures in the months ahead."

Key points

- Output and new order growth weakens to five-month low
- New export business expands at slowest pace since June
- Input costs and output charges both fall markedly

Historical Overview



Sources: Markit, HSBC.

The November HSBC Flash China Manufacturing PMI is due for release 20th November 2014.
 For all forthcoming PMI release dates please see <http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates>

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Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 420 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*[™] (*PMI*[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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